

HOWARD DOWNING
ATTORNEY AT LAW
109 SOUTH FIRST STREET
NICHOLASVILLE, KENTUCKY 40356
PHONE 885-4619

December 10, 2004

RECEIVED

DEC 10 2004

Ms. Beth O'Donnell, Executive Director
Kentucky Public Service Commission
P. O. Box 615
211 Sower Boulevard
Frankfort, Kentucky 40602-0615

PUBLIC SERVICE
COMMISSION

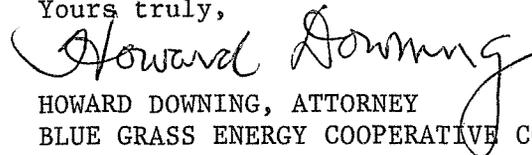
RE: BLUE GRASS ENERGY COOPERATIVE CORP.
CASE NO. 2004-00374

Dear Ms. O'Donnell:

Please find attached the response of Blue Grass Energy to the
"FIRST DATA REQUEST OF COMMISSION STAFF TO BLUE GRASS ENERGY COOPERATIVE
CORPORATION". Please notify if there are any further questions.

Thanks for your expediting this matter.

Yours truly,



HOWARD DOWNING, ATTORNEY
BLUE GRASS ENERGY COOPERATIVE CORPORATION

RECEIVED

DEC 10 2004

PUBLIC SERVICE
COMMISSION

1. Blue Grass Energy states in its application, at page 2, that no increase will be necessary for the financing and construction of the proposed facilities. However, its financial forecast as presented in Exhibit A shows that to achieve a Times Interest Earned Ratio ("TIER") of 1.50, Blue Grass Energy will need additional revenue in each year from 2004 through 2009. Explain in detail how Blue Grass Energy intends to obtain this additional revenue if it does not request a rate increase.

As shown in Exhibit A of the original filing on the Comparison of Selected Financial Information you can see that there is very little difference in TIER with or without the building over the 9 year period. The difference in 2004 is .05 and in 2013 .02. The additional revenue requirement only ranges from approximately \$119,000 to \$144,000 over this period. Total sales are projected to grow by 3.4 percent a year during this period as projected in East Kentucky's Power requirement study. We feel this will produce the additional revenue requirement needed and that the Building addition has a small impact on the financial condition over this period. The 1.5 TIER was used as a planning tool; however, RUS only requires a 1.25 TIER in two of three years. Due to consolidation a 1.0 TIER can be used for the first five years (2002-2006).

- 1a. Explain Why Blue Grass Energy believes a 1.50 TIER is a reasonable goal. Include any analysis performed by or for Blue Grass Energy concerning the reasonable TIER goal.

The 1.50 TIER goal was used because it represents the TIER Goal used by Rural Utilities Service (RUS) in preparing our 2 year work plan loan. Mike Norman, RUS Representative, stated this is a TIER average used for future projections.

- 1b. In recent electric cooperative rate cases, the cooperatives have proposed and been granted revenue increases based on a 2.00 TIER. Explain why a 2.00 TIER was not utilized in Blue Grass Energy's financial forecast.

We wanted to be consistent with RUS. However, in the future if we need to file for a general rate increase a 2.0 TIER would be desirable to avoid having to file again for several years.

- 1c. Indicate when Blue Grass Energy anticipates filing its next general rate case and explain why it believes that will be the time to file.

We do not anticipate filing a general rate case for an increase until our RUS TIER requirement is not met. As you see our TIER for the past three years has been 2003 - 2.49, 2002 - 2.26 and 2001 – 2.26 respectively. RUS TIER requirement is 1.25 for two out of three years. During our current 5 year consolidation period of 2002 through 2006 our TIER requirement can be lowered to 1.0 by RUS, if requested. This is one of the RUS incentives for consolidation.

Witness: Donald Smothers

2. Provide a schedule showing for the following time periods the actual TIER, exclusive of Generation and Transmission Capital Credits, earned by Blue Grass Energy and the amount of additional revenue, if any, which would have been needed in each period for Blue Grass Energy to have achieved a 1.50 TIER:

- a. Actual TIER, exclusive of G & T Capital Credits:

2001	1.24
2002	1.16
2003	1.15

The modified TIER for 2002 and 2003 reflects our decision to improve customer satisfaction and power quality primarily through our Right of Way maintenance program. This decision was made in part based on the fact that EKPC had budgeted substantial patronage allocations to its member systems.

Additional Revenue needed to achieve a 1.50 TIER, exclusive of G & T Capital Credits:

2001	\$ 817,705
2002	\$1,020,099
2003	\$1,010,602

- b. Actual TIER, exclusive of G & T Capital Credits:

12 months ended June 30, 2004: 1.01

Additional Revenue needed to achieve a 1.50 TIER, exclusive of G & T Capital Credits:

12 months ended June 30, 2004: \$1,332,285

- c. Actual TIER, exclusive of G & T Capital Credits:

The most recent 12-month period for which financial information is available: 1.08

Additional Revenue needed to achieve a 1.50 TIER, exclusive of G & T Capital Credits: \$1,112,300

Witness: Donald Smothers

3. Refer to Exhibit A of the application. Provide the work papers and calculations supporting the results shown in the Financial Comparison.

A summary of the calculations is attached.

Witness: Donald Smothers

SUMMARY TABLE FOR REFERENCE

No building
2005

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. T.I.E.R. Goal with Increase	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
2. T.I.E.R. Earned without Increase	1.28	1.31	1.44	1.44	1.48	1.52	1.54	1.56	1.57	1.57
3. Oper. Margins (excl G&T + lender CC paid) with Rate Increase	\$1,286,613	\$1,346,803	\$1,524,308	\$1,713,804	\$1,895,764	\$2,147,353	\$2,454,491	\$2,787,812	\$3,034,880	\$3,309,753
4. Oper. Margins (excl G&T + lender CC paid) without Rate Increase	\$649,552	\$778,910	\$1,306,072	\$1,481,117	\$1,815,297	\$2,147,353	\$2,454,491	\$2,787,812	\$3,034,880	\$3,309,753
5. Before Deferral	\$817,061	\$567,893	\$218,238	\$232,686	\$80,487	-\$78,522	-\$208,093	-\$322,890	-\$383,140	-\$442,357
6. Deferred Revenue (Net)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7. Required Increase in Revenue	\$817,061	\$567,893	\$218,238	\$232,686	\$80,487	-\$78,522	-\$208,093	-\$322,890	-\$383,140	-\$442,357
7a. Required Increase per Kwh (cents)	0.054	0.048	0.017	0.017	0.008	-0.005	-0.014	-0.020	-0.023	-0.028
8. Average Revenue per Kwh (cents)	6.02	6.01	5.94	5.80	5.88	5.87	5.86	5.86	5.86	5.85
9. Percent Increase in Revenue	0.90%	0.80%	0.29%	0.30%	0.10%	-0.08%	-0.23%	-0.35%	-0.40%	-0.45%
10. Interest on L.T.D.	\$2,803,227	\$3,083,606	\$3,438,816	\$3,837,607	\$4,221,528	\$4,587,663	\$4,969,797	\$5,379,843	\$5,813,480	\$6,284,792
11. Equity Ratio with Increase	34.13	33.10	32.03	31.14	30.61	30.18	29.79	29.45	29.20	29.01
12. Debt Service Coverage	0.98	1.07	1.28	1.38	1.51	1.57	1.69	1.82	1.85	1.87
13a. General Funds Available	\$10,401,651	\$2,519,771	\$4,162,844	\$6,053,876	\$8,953,873	\$12,492,697	\$17,051,374	\$22,663,384	\$28,900,817	\$35,749,062
13b. Gen. Funds Used During Year	\$9,502,500	\$1,100,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000
13c. General Funds End of Year	\$899,151	\$1,419,771	\$3,037,844	\$4,928,876	\$7,828,873	\$11,367,697	\$15,926,374	\$21,538,384	\$27,775,817	\$34,624,062
14a. General Funds Goal: Plant Ratio or Min. Dollar Level	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
14b. Actual Gen. Funds to Plant Ratio	0.62	0.80	1.80	2.72	4.09	5.63	7.48	9.60	11.78	13.98
14c. Required Gen. Fund Level for Goal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
15. Total Funds Available to Invest & Still Meet Goal	\$899,151	\$1,419,771	\$3,037,844	\$4,928,876	\$7,828,873	\$11,367,697	\$15,926,374	\$21,538,384	\$27,775,817	\$34,624,062
16. Total Funds Required	\$11,590,500	\$13,525,000	\$13,525,000	\$13,525,000	\$12,025,000	\$12,355,000	\$12,694,900	\$13,044,997	\$13,405,597	\$13,777,015
17. General Funds Invested	\$8,702,500	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000
18. Add. Gen. Funds Available	\$899,151	\$1,419,771	\$3,037,844	\$4,928,876	\$7,828,873	\$11,367,697	\$15,926,374	\$21,538,384	\$27,775,817	\$34,624,062
19. New RUS Loans Required	\$0	\$12,500,000	\$12,500,000	\$11,000,000	\$11,000,000	\$11,330,000	\$11,669,900	\$12,019,997	\$12,369,597	\$12,752,015
20. New Guaranteed Loans Required	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
21. Prior RUS Loans Required	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
22. Prior RUS Loans Appl.	\$2,888,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
23. Prior Guaranteed Loans Appl.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
24. Prior Other Loans Appl.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
25. Kwh Sales	1,143,353,216	1,193,023,000	1,280,584,000	1,338,642,000	1,398,820,000	1,455,192,000	1,522,179,000	1,580,212,000	1,635,120,000	1,699,518,000
26. % Increase Year by Year	5.40%	4.34%	5.66%	6.04%	4.65%	4.03%	4.81%	3.81%	3.47%	3.94%
General Funds Input Aid (GFIA)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gen. Funds for Priority Const.	7,112,000	0	0	0	0	0	0	0	0	0
Gen. Funds for Non-Prior. Const.	1,590,500	1,000,000	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000
Add. Gen. Funds for Goal	899,151	1,419,771	3,037,844	4,928,876	7,828,873	11,367,697	15,926,374	21,538,384	27,775,817	34,624,062
Gen. Funds for Prior. Const. CALC	8,011,151	1,419,771	3,037,844	4,928,876	7,828,873	11,330,000	11,669,900	12,019,997	12,369,597	12,752,015

With Building
2004 2005

SUMMARY TABLE FOR REFERENCE

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
1. T.I.E.R. Goal with Increase	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
2. T.I.E.R. Earned without Increase	1.28	1.28	1.39	1.40	1.45	1.48	1.51	1.53	1.54	1.55
3. Oper. Margins (excl G&T + lender CC paid) with Rate Increase	\$1,268,613	\$1,357,253	\$1,545,208	\$1,734,675	\$1,916,392	\$2,089,159	\$2,327,217	\$2,641,193	\$2,908,946	\$3,184,535
4. Oper. Margins (excl G&T + lender CC paid) without Rate Increase	\$649,552	\$670,763	\$1,177,026	\$1,352,129	\$1,688,795	\$2,019,451	\$2,327,217	\$2,641,193	\$2,908,946	\$3,184,535
5. Before Deferral	\$617,061	\$666,490	\$368,182	\$362,547	\$229,598	\$69,708	-\$58,805	-\$176,585	-\$237,863	-\$298,154
6. Deferred Revenue (Net)	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
7. Required Increase in Revenue	\$617,061	\$666,490	\$368,182	\$362,547	\$229,598	\$69,708	(\$58,805)	(\$176,585)	(\$237,863)	(\$298,154)
7a. Required Increase per Kwh (cents)	0.054	0.058	0.029	0.029	0.016	0.005	-0.004	-0.011	-0.015	-0.018
8. Average Revenue per Kwh (cents)	6.02	6.02	5.95	5.91	5.89	5.87	5.86	5.86	5.86	5.85
9. Percent Increase in Revenue	0.90%	0.97%	0.49%	0.49%	0.28%	0.08%	-0.07%	-0.19%	-0.25%	-0.30%
10. Interest on L.T.D.	\$2,803,227	\$3,084,508	\$3,480,416	\$3,879,350	\$4,282,784	\$4,628,318	\$5,006,825	\$5,419,215	\$5,852,167	\$6,302,763
11. Equity Ratio with Increase	34.13	32.88	31.84	30.97	30.47	30.03	29.61	29.24	28.96	28.75
12. Debt Services Coverage	0.98	1.08	1.30	1.39	1.52	1.56	1.68	1.80	1.84	1.88
13a. General Funds Available	\$10,401,651	\$2,368,687	\$4,381,551	\$7,355,846	\$10,909,947	\$15,413,992	\$20,971,371	\$27,154,172	\$33,947,788	\$41,225,000
13b. Gen. Funds Used During Year	\$9,502,500	\$3,100,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000	\$1,125,000
13c. General Funds End of Year	\$899,151	(\$482,532)	\$1,243,687	\$3,236,551	\$6,230,846	\$9,784,947	\$14,288,992	\$19,846,371	\$26,029,172	\$32,822,788
14a. General Funds Goal: Plant Ratio or Min. Dollar Level	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
14b. Actual Gen. Funds to Plant Ratio	0.82	-0.30	0.72	1.78	3.21	4.77	6.82	8.74	10.90	13.10
14d. Required Gen. Fund Level for Goal	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total Funds Available to Invest & Still Meet Goal	\$699,151	\$0	\$1,243,687	\$3,236,551	\$6,230,846	\$9,784,947	\$14,288,992	\$19,846,371	\$26,029,172	\$32,822,788
15. Total Funds Required	\$11,590,500	\$16,450,000	\$13,525,000	\$13,525,000	\$12,025,000	\$12,355,000	\$12,694,800	\$13,044,997	\$13,405,597	\$13,777,015
17. General Funds Invested	\$8,702,500	\$3,000,000	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000	\$1,025,000
18. Add. Gen. Funds Available	\$899,151	\$0	\$1,243,687	\$3,236,551	\$6,230,846	\$9,784,947	\$14,288,992	\$19,846,371	\$26,029,172	\$32,822,788
19. New RUS Loans Required	\$0	\$13,450,000	\$12,500,000	\$12,500,000	\$11,000,000	\$11,330,000	\$11,669,900	\$12,019,997	\$12,380,597	\$12,752,015
20. New Guaranteed Loans Required	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
21. New Other Loans Required	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
22. Prior RUS Loans Appl.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
23. Prior Guaranteed Loans Appl.	\$2,888,000	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
24. Prior Other Loans Appl.	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
25. Kwh Sales	1,143,353,216	1,183,023,000	1,260,564,000	1,336,642,000	1,398,820,000	1,455,152,000	1,522,179,000	1,580,212,000	1,635,120,000	1,689,516,000
26. % Increase Year by Year	5.40%	4.34%	5.66%	6.04%	4.65%	4.03%	4.61%	3.81%	3.47%	3.94%
General Funds Input Aid (GFIA)	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Gen. Funds for Priority Const.	7,112,000	0	0	0	0	0	0	0	0	0
Gen. Funds for Non-Prior. Const.	1,590,500	3,000,000	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000	1,025,000
Add. Gen. Funds for Goal	899,151	(482,532)	1,243,687	3,236,551	6,230,846	9,784,947	14,288,992	19,846,371	26,029,172	32,822,788
Gen. Funds for Prior. Const. CALC	8,011,151	(482,532)	1,243,687	3,236,551	6,230,846	9,784,947	11,669,900	12,019,997	12,380,597	12,752,015

4. Based on its Statement of Operations for the 12 months ending June 30, 2004, calculate the increase in revenues that would be needed in order for Blue Grass Energy to achieve a 2.00 TIER, exclusive of G&TCC.

\$2,701,880

Witness: Donald Smothers

5. Based on the TIER achieved since 2001, is Blue Grass Energy in compliance with the TIER requirements contained in its Rural Utilities Service, Federal Finance Bank and National Rural Utilities Finance Corporation Loans? Explain the response.

Yes, RUS and CFC require a TIER and DSC of 1.25 two of three years.

2001 TIER 2.67 DSC 2.59

2002 TIER 2.49 DSC 2.26

2003 TIER 2.26 DSC 1.91

Also, through 2006 this requirement can be waived to 1.00 if needed.

Witness: Donald Smothers

6. Provide the number of employees currently located at the Oddville Avenue facility and at the new Lair Road facility.

Oddville Avenue	12
New Lair Road	14

Witness: Donald Smothers

7. Provide the projected total number of employees that will be located at the proposed new facility.

Proposed new facility 26

Witness: Donald Smothers

8. Explain how Blue Grass Energy arrived at a square footage requirement for the new facility and provide a copy of any space requirement study that was conducted internally or by a consultant.

We used a consultant CDS Associates, Inc. to perform a due diligence analysis of the projected square footage needed for the new building. The analysis is as follows:

Witness: Len Parsons

**SPACE SUMMARY
DISTRICT BRANCH OFFICE**

	CONVENTIONAL OFFICE
OFFICE	8,347
CIRCULATION / EFFICIENCY	834.7
<hr/>	
SUBTOTAL GROSS SQ. FT.	9,182
	PRE-ENGINEERED WRSE / STOR
LOGISTICS	13189
CIRCULATION / EFFICIENCY	1,319
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SUBTOTAL GROSS SQ. FT.	14,508
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TOTAL GROSS SQ. FT.	23,690

Blue Grass Energy Design Program

DESCRIPTION OF AREA	NO. OF ROOMS OR SPACES	NO. OF PERSONNEL	W	L	PROP. SQ. FT.	TOTAL PROJ. SQ. FT.	SUGGESTED FLOOR	WALLS TO CEILING	FULL HT. WALLS	ACOUSTICAL TREATMENT	REMARKS
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PROTOTYPE DISTRICT OFFICE

EXISTING PERSONNEL

DISTRICT BRANCH MANAGER	1		12	18	216	216			x	x	Sight lines to Service Center and Lobby; Adjacent to Conference Room
SERVICE CENTER	4		8	12	96	384					front counter w/ 4 stations; 2 cashier low & high; 2 low in separated stations
SERVICE CENTER OPEN OFFICE AREA	2		5	8	40	80					freestanding desks with task chairs between counter and drive through window
SUPERVISOR OFFICE SERVICES	1		10	14	140	140			x	x	Adjacent to Service Center & Drive Through
MEMBER SERVICES ADVISOR	1		10	12	120	120			x	x	Accessible off of Lobby
HUMAN RESOURCES OFFICE	1		10	16	160	160			x	x	Includes (2) fire-rated lateral files (locked, medical & insurance files)
ECONOMIC DEVELOPMENT OFFICE	1		10	12	120	120		x			Out of office a lot, can be in rear of facility
BILLING SUPV. OFFICE	1		10	12	120	120		x			
BILL PROCESSING STATIONS	3		8	8	64	192					
DATA PROCESSING OFFICE	1		10	12	120	120		x			Adjacent to Data Processing/Telephone Room
RIGHT-OF-WAY OFFICE	1		10	12	120	120		x			Out of office a lot
LINE SUPV. OFFICE	1		10	12	120	120		x			
LINE FOREMAN	5		6	8	48	240		x			Work carrels in one room
STAKING TECHNICIAN ROOM	1		12	16	192	192		x		x	(2) 8' x 8' cubicles in room: 1 current & 1 future

FUTURE PERSONNEL (5-10 YRS. IN FUTURE)

STAKING TECHNICIAN	1		8	8	64						Included in Staking Tech Room above
MEMBER SERVICES ADVISOR	1		10	12	120	120			x	x	Accessible off of Lobby

SUPPORT AREAS

DESCRIPTION OF AREA	NO. OF ROOMS OR SPACES	NO. OF PERSONNEL	W	L	PROP. SQ. FT.	TOTAL PROJ. SQ. FT.	SUGGESTED FLOOR	WALLS TO CEILING	FULL HT. WALLS	ACOUSTICAL TREATMENT	REMARKS
CONFERENCE ROOM	1		12	16	192	192					seating for 4-6, off the lobby; computer; adjacent to Dist. Mgr. Office
LARGE CONFERENCE ROOM	1		20	24	480	480					seating for 18; accessible from side entrance; also used for Board Meeting; computer; adjacent to Dist. Mgr. Office
SHARED OFFICE WORK SPACE	1		10	16	160	160					staging engineer and electrical inspectors; map storage; drawing layout; part time occupancy
DRIVE THRU WINDOW	1		3	16	48	48					worked by service center personnel at front counter
NIGHT DROP BOX	1		1	2	2	2					
LOBBY	1		12	24	288	288					wall display for brochures; display case
WAITING	1		12	18	216	216					seating for 4-6 people
VESTIBULE	1		10	10	100	100					
COPIER / WORK AREA	1		2	10	20	20					adjacent to file storage and service counter

DESCRIPTION OF AREA	NO. OF ROOMS OR SPACES	NO. OF PERSONNEL	W	L	PROP. SQ. FT.	TOTAL PROJ. SQ. FT.	SUGGESTED FLOOR	WALLS TO CEILING	FULL HT. WALLS	ACOUSTICAL TREATMENT	REMARKS
PUBLIC REST ROOMS	2		9	12	108	216					access from lobby
EMPLOYEE BREAK/TRAINING ROOM	1		24	30	720	720					kitchennett; seating for 18; training room
KITCHENETTE/VENDING	1		12	16	192	192					outside access, adjacent to Employee Break/Training Room
BREAK ROOM STORAGE	1		10	10	100	100					
DATA PROCESSING/TELEPHONE ROOM	1		20	20	400	400					Hardened facility, emergency power. Within 40' of radio tower.
DISPATCH ROOM	1		15	15	225	225					Hardened facility, emergency power. Adjacent to Data Processing
EMPLOYEE REST ROOMS	2		10	20	200	400					
FILE STORAGE	1		12	12	144	144					fire rated; cash safe
BILL PROCESSING ROOM	1		20	30	600	288			x	x	Heavy acoustical treatment, separate ventilation; Bill Supv. & Proc. offices located in this space
BILL PROCESSING STORAGE ROOM	1		30	30	900	900			x		Humidity control; adjacent to Shipping & Receiving Dock
CUSTODIAL STORAGE	1		6	8	48	48					service sink
SMOKING ROOM	1		10	12	120	120			x		In warehouse, separate ventilation
MEN'S LOCKER / SHOWER ROOM	1		12	16	192	192					2 showers; (16) half hgt lockers and (4) full hgt
WOMEN'S LOCKER / SHOWER ROOM	1		6	10	60	60					1 shower; 4 lockers
GENERAL STORAGE	1		10	12	120	120					
MECHANICAL / ELECTRICAL	1		12	16	192	192					
MECHANICAL	2		5	8	40	80					

TOTAL NET SQ FT **8,347**

WAREHOUSE

GENERAL STORAGE	1		45	100	4,500	4,500					Shipping/Receiving (1high, 1 low dock), drive-through door with ramp for forklift
PRODUCT STORAGE	1		24	36	864	864					secured hot water heaters; meter bases;
SCALE	1		5	5	25	25					

DESCRIPTION OF AREA	NO. OF ROOMS OR SPACES	NO. OF PERSONNEL	W	L	PROP. SQ. FT.	TOTAL PROJ. SQ. FT.	SUGGESTED FLOOR	WALLS TO CEILING	FULL HT. WALLS	ACOUSTICAL TREATMENT	REMARKS
TRUCK LOADING	4		30	35	1,050	4,200					internal parking bays; 14 x 16 overhead coiling doors; air lines at bays
TRUCK SERVICE BAYS	1		30	35	1,050	1,050					2 truck bays adjacent to truck loading bays
TRUCK WASH BAY	1		30	35	1,050	1,050					Adjacent to truck loading bays
MATERIAL STAGING AREA	1		15	100	1,500	1,500					adjacent to truck loading bays and transformer storage
TOTAL NET SQ FT						13,189					

DESCRIPTION OF AREA	NO. OF ROOMS OR SPACES	NO. OF PERSONNEL	W	L	PROP. SQ. FT.	TOTAL PROJ. SQ. FT.	SUGGESTED FLOOR	WALLS TO CEILING	FULL HT. WALLS	ACOUSTICAL TREATMENT	REMARKS
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OUTDOOR AREAS / STORAGE

TRANSFORMER STORAGE	1		24	60	1,440	1,440					covered- adjacent to warehouse with direct access
POLE YARD											4 pole racks
RADIO TOWER											
EMERGENCY GENERATOR											
EMPLOYEE PARKING											
COMPANY VEHICLE / EQUIPMENT PARKING											
DUMPSTER DOCK											

9. Explain whether the present operations center site will require any environmental clean-up either after it is abandoned or prior to its sale. Also explain whether an environmental assessment of the site has been performed or if one will have to be performed, and state any known estimate of the cost to perform any clean-up.

We are not aware of any environmental clean-up required at this site and we are not aware of any reason why an environmental assessment should be performed.

Witness: Len Parsons

10. The existing operations center consists of 3,975 square feet. Explain in detail why additional space is needed and when it is needed. What is the estimated cost of the needed addition if it is constructed adjacent to the existing structure?

Existing operation facility square footage was reported inaccurately in the original filing. The correct existing square footage is 9,330. The space requirements were determined by CDS Associates in their due diligence analysis listed in Item 8.

Witness: Len Parsons

11. During a field visit to the operations center on November 5, 2004, no employees were at the center even though the gate and doors were open. Explain whether security is needed at this office.

The operations center security issues have been addressed.

Witness: Mike Williams

12. Blue Grass Energy considered the option of renovating its existing office and operation facilities at an estimated cost of \$1,758,000 and leaving the operations center at its current location. Explain this option in detail.

One of our key objectives of this project is to consolidate the office and operations into one facility and location. An estimate of \$1,758,000 was obtained for the renovation of the Oddville Avenue office building only. That estimate includes:

- a. Updating all wiring to meet current needs and codes;
- b. Updating all plumbing to meet current needs and codes;
- c. Installing a new HVAC system that would handle the entire facility efficiently & effectively (which would be difficult if not impossible with the current layout of the building being non-conductive for the ductwork);
- d. New drop ceilings;
- e. New lighting fixtures;
- f. New floor coverings & carpet;
- g. Renovating the front section for better customer service;
- h. Minor structural changes to meet space needs and better working conditions;
- i. All new exterior doors & windows;
- j. Installation of sprinkler system (if required);
- k. Cosmetic work such as painting, etc.;
- l. Update the outside of the building.

Based on the \$1,758,000 estimate for renovation of the Oddville Avenue office building only, which is 60% of the proposed combined new facility, no further consideration was given to renovation of any of the facilities at either location. In addition renovation does not provide the desired goal to have the facilities in one location. There are many reasons to have the facilities at one location. Among those reasons are:

- a. Improve operating efficiencies;
- b. Improve the managing efficiencies of both offices;
- c. Accomplish our desire for a central location as explained in exhibit C & H of the original filing;
- d. Improve communications due to not having a dispatch center at the operations facility as explained in exhibit C & H of the original filing;
- e. Eliminate the safety concerns with our current drive-thru window situation as explained in exhibit C & H of the original filing;
- f. Desire to provide a working environment that would accommodate the current demands for new technologies and future technology demands;

- g. Provide our members with a facility that they would be proud of in the community;
- h. Accomplish our desire to be a constructive participant in the economic development of the community and business park.

Also, the property on Oddville Avenue is landlocked and the structure of the building does not allow for repositioning of the drive thru window in order to prevent drive thru traffic from crossing the pedestrian customer entrance pathway, presenting a major hazard.

Witness; Len Parsons

13. Has Blue Grass Energy considered the option of demolishing its existing building and constructing a new office building?

No, there is not sufficient space to construct an adequate office and operations facility at the Oddville Avenue site. Demolition of the existing operations center and construction of a new combined office and operations facility at the New Lair Road site was not considered because of the following:

- a. Need for our facility to be in a location easily found by our membership;
- b. Inability for members to access the facility safely;
- c. Traffic conditions on New Lair Road.

Witness: Len Parsons

14. Blue Grass Energy's proposed construction is estimated to cost \$3,000,000.
- a. Does this estimated include the \$220,000 cost to purchase 11 acres? No.
 - b. Provide a detailed estimate of the cost to extend Blue Grass Energy's 3-phase lines to serve the proposed district office building and explain how the estimated cost was derived.

Blue Grass Energy has measured the distance from our existing Three-Phase lines to the proposed district office site and estimates it to be approximately 4,400 feet, which is approximately .83 miles. We anticipate running a three-phase 1/0 ACSR line to serve the proposed district office at a cost of approximately \$46,000.00. This cost is based on our estimated per mile cost of \$55,000.00 that is on page II-B of our 2004-2005 Work Plan which was filed in PSC Case No. 2004-00251.

- c. Is the cost to extend electric service to the new office building included in the total estimated cost of \$3,000,000? No. It will be included as new construction in our 2004-2005 work plan and the loan associated with the work plan.

Witness: Chris Brewer